NEWS FROM:

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Royce Statement at Capital Markets Subcommittee Hearing on Stock Options

"The FASB Stock Options Proposal: Its Effect on the U.S. Economy and Jobs"

WASHINGTON, D.C. - - U.S. Rep. Ed Royce (R-CA-40) chaired today's Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises hearing entitled "The FASB Stock Options Proposal: Its Effect on the U.S. Economy and Jobs." The following is his opening statement:

"This afternoon we are convened for the purpose of reviewing the pending Financial Accounting Standards Board employee stock option expensing proposal and the potential effect its adoption may have on job creation and the U.S. economy.

"In previous hearings on this subject I have expressed deep concerns about the potential economic consequences of FASB's proposal to require the mandatory expensing of employee stock options. Like other supporters of Chairman Baker's legislation, H.R. 3574, I believe that broad-based stock options have played an important and positive role in our economy.

"Stock options enable emerging companies, which often do not have a tremendous amount of excess cash or cash flow, to attract talented employees that would otherwise not work for such firms. Some people claim that issuing such options represent an expense to a firm; however, stock options do not represent a cost to an entity. No cash is ever dispersed from the company's treasury. Existing shareholders may see their ownership diminish through dilution, but current accounting standards already require potential dilution to be fully disclosed.

"In the not-so-certain case that employee options are actually exercised the employing company receives cash. Employees who accept options are taking a well-known risk. There are no guarantees a firm will succeed and its stock price will rise. We hear about the successes in business, but let's not forget there are far more failures.

"The specific purpose of today's hearing is to explore the economic impact of FASB's proposal. Economic behavior has already changed because of this proposal. Many technology firms have already announced that they will no longer issue employee options. As a result, many firms have not been able to attract needed employees. Whether an individual is risk averse, risk taking, or risk loving, he or she is not likely to leave their job with a large mature firm to go to a start-up for a compensation package containing less cash and no stock options.

"If one accepts the premise that FASB's proposal will end broad-based stock option plans, as we know them today, then we should think about the potential long-term, negative consequences for our economy. Firms like Intel, Microsoft, Cisco, and Yahoo all used stock options at their early stages to attract employees. Would these firms have reached their amazing levels of success had stock options not been an available tool for recruitment? Will this proposal inhibit the development of the next Intel or Cisco? Established firms will survive and prosper under any new rule issued by FASB, but I am concerned new that new firms may not develop as a result. I believe that it is important for Congress to raise these concerns.

"We are very fortunate to have Mr. Herz and Mr. Batavick here today to help deal with these issues. I hope that in your opening remarks you will address questions such as:

- Has FASB field-tested valuation models;
- Has FASB considered the economic consequences of mandatory expensing;
- Has FASB considered that mandatory expensing could give foreign-based firms a competitive advantage in attracting employees;
- Is FASB concerned that its proposal could make financial comparability between firms more difficult; and lastly,
- Is FASB still open to considering other, non-binomial models?

"I look forward to hearing answers to these and many other questions."

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